

Person to Contact: [REDACTED]

Telephone Number: [REDACTED]

Refer Reply to: [REDACTED]

Date: OCT 13 1989

Dear Applicant:

We have considered your application for recognition of exemption from Federal Income Tax under Section 501(c)(6) of the Internal Revenue Code.

The information submitted discloses that you were incorporated on [REDACTED] under the nonprofit corporation laws of the State of [REDACTED].

According to your Articles of Incorporation the purposes for which you were formed include "to operate exclusively to improve the general business conditions of industrial, commercial, and service businesses in the City of [REDACTED] and more specifically to encourage and promote economic development in the City of [REDACTED] and to secure, create, and provide jobs for existing and future residents."

According to your 1984 application and supporting documentation, your organization's primary activity is the construction of a [REDACTED] square foot building and the rental of space in that building to three different businesses: [REDACTED], [REDACTED], and [REDACTED]. A photograph of this building is attached as Exhibit 1.

[REDACTED] has leased [REDACTED] square feet at \$[REDACTED] per year for two years to be used for manufacturing, assembly, office, warehouse and distribution. [REDACTED] has leased [REDACTED] square feet at \$[REDACTED] per year for three years to be used as warehouse space. [REDACTED] has leased [REDACTED] square feet at \$[REDACTED] per year for five years. This space will be used for manufacturing, assembly, office and distribution.

Code	Initiator	Reviewer	Reviewer	Reviewer	Reviewer	Reviewer	Reviewer
Surname	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Date	10/12/89	10/12/89	10/12/89	10/12/89	10/15/89	10/15/89	

\_\_\_\_\_ is a business whose main office is already located in \_\_\_\_\_. \_\_\_\_\_ is a manufacturer whose plant is also located in \_\_\_\_\_. Neither company is a "new" industry in the \_\_\_\_\_ community.

In addition to the above stated base rents, each tenant must pay \$\_\_\_\_\_ per year in additional rent charges to cover taxes, insurance, maintenance and capital reserves. Also, all the tenants may remain on the premises on a month to month agreement following the expiration of the initial lease agreement.

You stated that rental rates for this type of space typically run \$3.50 - \$4.25 per square foot. According to your projected budget for \_\_\_\_\_, your gross rental income will be approximately \$\_\_\_\_\_. Based upon this gross rental income, you are charging \$4.20 per square foot. Estimated net income for \_\_\_\_\_ will be approximately \$\_\_\_\_\_.

As an additional activity you stated that your organization is also active in contacting prospective businesses and encouraging them to locate in the area. However, you have stated you have no brochures, pamphlets, newsletters, advertisements, or any other literature concerning this activity nor have you provided any description of how this activity is conducted. .

The only members of your organization are your six members of the Board of Directors. According to your By-laws, these members will remain the sole members until either death, resignation, or removal by a vote of four members of the Board of Directors.

Section 501(c)(6) of the Internal Revenue Code provides for exemption of "business leagues, chambers of commerce, real estate boards, boards of trade, or professional football leagues (whether or not administering a pension fund for football players), not organized for profit and no part of the net earnings of which inures to the benefit of any private shareholder or individual."

Section 1.501(c)(6)-1 of Income Tax Regulations reads as follows:

"BUSINESS LEAGUES, CHAMBERS OF COMMERCE, REAL ESTATE BOARDS AND BOARDS OF TRADE. A business league is an association of persons having some common business interest, the purpose of which is to promote such common interest and not to engage in a regular business of a kind ordinarily carried on for profit. It is an organization of the same general class as a chamber of commerce or board of trade. Thus, its activities should be directed to the improvement of business conditions of one or more lines of business as distinguished from the performance of particular services for individual persons. An organization whose purpose is to engage in a regular business of a kind ordinarily carried

on for profit, even though the business is conducted on a cooperative basis or produces only sufficient income to be self-sustaining, is not a business league. An association engaged in furnishing information to prospective investors, to enable them to make sound investments, is not a business league, since its activities do not further any common business interest, even though all of its income is devoted to the purpose stated. A stock or commodity exchange is not a business league, a chamber of commerce, or a board of trade within the meaning of section 501(c)(6) and is not exempt from tax. Organizations otherwise exempt from tax under this section are taxable upon their unrelated business taxable income. See sections 511 to 515, inclusive and the regulations thereunder."

Rev. Rul. 70-81, 1970-1, C.B. 131, granted exempt status to an organization that was created by a local chamber of commerce. The purpose of the organization was to attract new industry to the community. Appropriate sites were offered to businesses at low prices, sometimes at less than cost, in order to induce them to locate in the community. The ruling held that the acquisition, development and sale of industrial sites was conducted in a manner designed to attract industry to the community and was not an activity of a kind ordinarily carried on for profit.

Your organization differs from the organization described in Rev. Rul. 70-81 in several respects. First, the amount of base rent and additional rent that you charge is comparable to any other commercial enterprise. Second, your building is primarily used as a warehouse to store merchandise for two companies already located in [REDACTED]. It therefore cannot be said that you are promoting the area as a whole by contacting new industry to locate in the area. You have not submitted any evidence that you are attracting new industry to locate in the area. Third, you are completely controlled by your six members who share no common business interest and who will remain the sole members until death, resignation or removal by a vote of four members. Your activities have the characteristics of a trade or business and are not in furtherance of an exempt purpose. You are not operating as a chamber of commerce or as a business league. In addition, your restricted membership is outside the scope of Section 501(c)(6).

We have concluded that you do not qualify for exemption from Federal Income Tax as an organization described in Section 501(c)(6) of the Internal Revenue Code. Accordingly, you are required to file Federal income tax returns on Form 1120, annually with your District Director.

[REDACTED]

If you do not agree with these conclusions, you may within 30 days from the date of this letter, file a brief of the facts, law and arguments (in duplicate) which clearly sets forth your position. In the event you desire an oral discussion of the issues, you should so indicate in your submission. A conference will be arranged in the Regional Office after you have submitted your brief to the Chicago District Office and we have had an opportunity to consider the brief and it appears that the conclusions reached are still unfavorable to you. Any submission must be signed by one of your principal officers. If the matter is to be handled by a representative, the Conference and Practice Requirements regarding the filing of a power of attorney and evidence of enrollment to practice must be met. We have enclosed Publication 892, Exempt Organization Appeal Procedures for Adverse Determinations, which explains in detail your rights and procedures.

Please keep this determination letter in your permanent records.

If you agree with this determination please sign and return the enclosed Form 6018.

ry truly yours,

[REDACTED]  
District Director

Enclosures:  
Publication 892  
Form 6018